User segmentation & users vs. customers

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to segment your users

- The difference between a user and a customer is that a user does not pay, but a customer does
- Segmenting your users/customers depends on what your end goal is
- For example, in the lemonade stand model, we can segment our customers by how many walked by, how many stopped, and how many bought something, with the end goal of figuring out which location has the best person working at it
- Don't copy a generic user segmentation that someone else made, make one that fits your specific model
- Think about why you're making this model and what problem you're trying to solve
- You have to segment the users in a way that is most relevant for your business

See you next lecture!

Usage segmentation

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Segmenting users by usage

- Usage segmentation means segmenting users by their usage of a product or service
- This type of segmentation is relevant to the people who make apps where the revenue depends on how often and how much someone uses the product
- Modeling all the segments available gives the model more flexibility
- If something changes (for example, pricing tiers), the modifications will be easier to implement in the model
- You can follow a similar approach when segmenting users by some other factors, like channel or geography

See you next lecture!

Think in terms of funnels

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to think about user acquisition

- A funnel represents the distinct phases in which the customers are acquired
- When marketing your product and running ads, you have to measure how effective your ad campaigns are
- In order to do that, you look at a number of things:

  - the number of people who saw your ad
  - the number of people who clicked it
  - the number of people who stayed on the page
  - the number of people who put an item in their cart
  - the number of people who ended up purchasing something
- The number in each phase gets smaller and smaller, which means you can display this process in a shape that looks like a funnel
- Thinking in terms of funnels helps you organize customer behaviors in a linear and logical step by step process

See you next lecture!

Modeling growth rate

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to model growth rate

- **The easy way:**

  Have growth rate as an assumption in the model (for example, growing 5% a week), and this assumption could be made to change over time

- Downside: the numbers could vary wildly depending on which growth rate you use
- In real life, you don't get to choose your growth rate, it's an outcome

- **The better way:**

  Make growth rate the outcome

- First decide what is the metric that measures success or failure for your business and then think about what would be a great and achievable milestone for you to reach
- Work backwards to derive your needed growth rate in order to achieve that target

See you next lecture!

Modeling attrition

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to model attrition

- **Attrition (or churn) is the loss of users/customers in a given period of time**
- Attrition = Users lost during period / Users at the beginning of period
- This doesn't take into account the users that were added during the same period
- If you're selling a physical product, this doesn't really apply to you
- If you're selling a product or service that people regularly interact with, you need to factor attrition in your model
- At first, you're modeling attrition based on assumptions, but after a while you can see the actual rate at which you lose customers and model based on that

- The larger the sample of users, the more accurate your estimation will be

- By modeling attrition, you can notice how the different segments of users differ and try to figure out why that is and how you can improve

- Attrition can become a KPI (key performance indicator) for your business

See you next lecture!